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DEPARTMENT OF STATE

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May 12, 1982

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SECRETMEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSE

COPIES:

SUBJECT: Japanese Request for Export Licenses for Sakhalin
Project

REF: Wheeler-Bremer memorandum of May 10, 1982

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The Japanese attach great importance to obtaining this year's licenses for U.S. equipment for the 7 year-old Sakhalin project. Requests for export licensing have been made not only through letters to the NSC and State, but in demarches by the Japanese Ambassador to Undersecretary Buckley and to the Deputy Secretary. Most recently, Prime Minister Suzuki raised the issue with the Vice President. Ambassador Mansfield has emphasized the impact a negative answer from the United States could have on Japanese willingness to continue to cooperate in other areas. However, events in Europe and Japan in the next few weeks will affect our oil and gas controls and the possibility of achieving restrictions on official credit flows to the USSR. The issues need to be addressed within the context of our overall objectives vis-a-vis the Soviet Union, and of whether we can effectively link issues such as credits, energy security, not undercutting our sanctions, and oil and gas controls. The Department of State, therefore, urges that a high level meeting be held promptly to decide the broader policy questions presented in our memorandum of May 5, which requested a meeting by May 14. But whether or not that meeting is held, a decision on Sakhalin should not be made in isolation.

Without prejudice to the results of that review, we wish to comment on several points in the May 10 NSC memorandum on Sakhalin:

1. Whether or not the Odoptu structure, to be explored this year, is marginal to the purposes of the project, the Soviet threat to abrogate the agreement, if this year's schedule is not observed, should be taken seriously. Abrogation could lead to Japanese loss of rights over the more important Chaivo structure. Even if the threat were not carried out, the Soviets could use the possibility of abrogation as leverage to attempt to force the Japanese into making concessions on cooperation in the production phase, or on other matters of economic relations with the Soviets.

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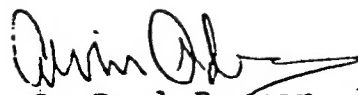
2. The May 10 NSC memo draws parallels to the Yamburg-Urengoi pipeline. There are also significant differences between these two projects--the primary one being that the level of Japanese dependence which could result from Sakhalin production is so slight as to be insignificant.

3. SODECO's figure of a \$500 million loss includes \$185 million in invested capital which would not be repaid, and \$292 million in the form of discounted oil and gas prices. These figures may be somewhat overstated, but the loss to the Japanese is considerable.

4. The May 10 NSC memo states that it would take the Japanese or Soviets two years to replace US equipment. The Japanese, even when stressing their need for US equipment, admit that they could obtain replacements by the 1983 drilling season.

5. The U.S. energy "offset package" proposed to induce the Japanese to forego development of Chaivo is unrealistic. By law, Alaskan oil may not be exported to Japan. Japan already purchases modest quantities of Alaskan LNG; the remaining reserves are pledged to the ANGTS pipeline. To rededicate this gas to Japan would have grave consequences for U.S.-Canadian relations. Moreover, as the NSC paper points out, there are ample LNG supplies available elsewhere in Asia. Japan has free access to as much U.S. coal as it needs, and steam coal exports have been increasing steadily.

6. We question the assumption that our leverage on the Japanese and the nature of the quids we might receive will be greater at the development phase if we deny exploration equipment now. If the Soviets do not abrogate the agreement in the face of U.S. equipment denial (itself a big "if") the SODECO consortium will almost certainly design the production program in order not to be dependent on U.S. equipment, and licensing "leverage" would evaporate.


L. Paul Bremer, III.
Executive Secretary

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